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JUL 13 1984

CERTIFIED MAIL

Dear Sir/Madam:

We have considered your application for recognition of exemption as an organization described in Section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were formed under a partnership agreement on [REDACTED] in the State of [REDACTED]. As stated in your agreement, your purpose is to invest the assets of the partnership solely in stocks, bonds and securities for the education and benefit of the partners.

Your partnership is currently composed of [REDACTED] partners. Your principal activity is to collect funds from each partner and invest such funds in stocks, bonds and securities for profit. The partners share in all of the profits and losses from the investments.

Section 501(c)(7) of the Code provides for exemption for clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all the activities of which are for such purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.507(c)(7)-1(a) of the Income Tax Regulations states that the exemption provided by Section 501(a) for organizations described in Section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. The Service has consistently held, and has been upheld by the courts in the position that "other non-profitable purposes" must be similar to pleasure and recreation. (Revenue Ruling 69-635, 1969-2 C.B. 126; *Keystone Automobile Club v. Commissioner* 181 F. 2d 402 (1950)).

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname						
Date		7/15/84				

Section 501(c)(7) was amended in 1976 by Public Law 94-568, which introduced into the law the present statutory requirement that "substantially all" of a tax exempt club's activities be in furtherance of "pleasure, recreation, and other nonprofitable purposes" in lieu of the requirement, which had existed under Section 501(c)(7) prior to amendment, that the organization must be organized and operated "exclusively" for such purposes. However, the intent was to liberalize allowance of income from non-member sources in furtherance of or as a result of social activities, not to change the Service's position as to the general nature of social clubs or the non-profit purpose requirement. Senate Report No. 94-1318 2d Session, 1976-2 C.B. 596 specifically states the amendment was not intended to permit social clubs (emphasis supplied) to receive within the allowable guidelines, income from the active conduct of businesses not traditionally carried on by social clubs.

In *The Coastal Club, Inc.*, 43 TC 783 (1965), a duck hunting club and game preserve repeatedly entered into oil and gas leases on club property. The court found that the leasing activity was not incidental to the exempt purposes of the organization. It held that the club was engaged in business for profit and therefore was not qualified for exemption.

In Revenue Ruling 76-366, Cumulative Bulletin 1976-2, page 144 it was held that an organization comprised of investment clubs was not exempt under Section 501(c)(3) of the Code since its activities consisted of furnishing information to prospective investors and members to enable them to make sound investments. Even though other activities were carried on, the furnishing of the investment advice, by the association was considered an activity to serve the private interests of the member-investors.

Your club is not organized for pleasure, recreation or other similar purposes, nor even for non-profitable purposes. The primary purpose of your club is to form a partnership for investment in stocks for the partners with all income inuring to the partners. Consequently, you are not formed to conduct activities which are non-profitable or traditionally carried on by a social club and it is intended that net earnings inure to the benefit of private shareholders.

Accordingly, you do not qualify for recognition of exemption from Federal income tax under Section 501(c)(7) of the Code

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nor any other subsection of Section 501(c) of the Code. You are therefore required to file Federal income tax returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional office conference staff. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional office, or if you request, at any mutually convenient District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
District Director

Enclosure: Publication 892